

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

August 21, 2001

The Capital Projects and Bond Oversight Committee met on Tuesday, August 21, 2001, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chair; Senator Robert Leeper, Vice Chair; Senator Bob Jackson; Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the committee: Dr. Gary Ransdell, Western Kentucky University; Dr. Gordon Davies, Council on Postsecondary Education; Mayor Sandy Jones, City of Bowling Green; Secretary Kevin Flanery, Gordon Mullis, and Jim Abbott, Finance and Administration Cabinet; Bill Hintze, Governor's Office for Policy and Management; Ken Walker, Kentucky Community and Technical College System; Ken Clevidence, University of Kentucky; Debby Milton, Kentucky Infrastructure Authority; Dr. Subodh Das, SECAT, Inc.; and Warren Nash, Cabinet for Economic Development.

LRC Staff: Mary Lynn Collins, Pat Ingram, Kevin Mason, Nancy Osborne, and Shawn Bowen.

Representative Wayne made a motion to approve the minutes of the July 17, 2001, meeting as submitted. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Haydon said as a result of questions raised at the committee's June meeting relating to alternative construction delivery methods, he and Representative Brent Yonts, Chairman of the Government Contract Review committee, have requested the Finance and Administration Cabinet Secretary, Kevin Flanery, to submit contracts relating to alternative construction methods to both committees as information items. A similar request was sent to the three universities that manage their own construction programs. Correspondence relating to the requests was in members' folders.

Chairman Haydon said a report from the Lottery Corporation and an annual report filed by the Administrative Office of the Courts relating to the court projects receiving allocations from the Contingency Fund were also included in members' folders.

Representative Wayne said as a result of legislation enacted in the 2000 Session, \$5,145,000 in unclaimed lottery winnings is to be transferred to the Affordable Housing Trust Fund. He encouraged members to remind local government and non-profits to pursue this funding source for low-income housing.

Chairman Haydon said the first order of new business pertained to the renovation of Western Kentucky University (WKU) E. A. Diddle Arena. At the committee's May meeting, WKU President, Dr. Gary Ransdell, made a brief presentation on the proposal. At that time, the proposal included transfer of Diddle Arena and other university property to the City of Bowling Green. Under that proposal, the city would issue \$32.5 million in General Obligation Bonds to renovate and convert the facility into a multi-purpose facility that could be used by the university and the community. As originally proposed, the university would transfer certain revenues earned on the transferred facilities to the city for debt service on the bonds. The committee requested at the May meeting that Secretary Flanery, as well as the Attorney General, the President of the Council on Postsecondary Education and the State Auditor, review the proposal and report back to this committee.

Chairman Haydon said the proposal has changed significantly since the May meeting, and he called on Dr. Ransdell and the Mayor of Bowling Green, Sandy Jones, to brief members on the revised proposal.

Dr. Ransdell explained that rather than transfer the deed to Diddle Arena, WKU plans to retain the facility and contract with the City of Bowling Green to perform the renovation work and to issue General Obligation Bonds to finance it. The university would transfer funds collected from a student athletic fee to the city to cover the debt service. Dr. Ransdell said the City of Bowling Green would follow the model procurement code and prevailing wage statutes. The city has selected a financial advisor for the financing, and will soon select a construction manager for the project.

Since WKU will retain ownership of the arena, Dr. Ransdell said the project would be considered a state capital project, and WKU will amend its capital plan to include the renovation. In addition, the university will seek authorization for the project at the outset of the 2002 Session of the General Assembly.

Dr. Ransdell then introduced Mayor Sandy Jones, City of Bowling Green. Mayor Jones said Bowling Green was pleased to be part of this project which is important not only to Bowling Green but to South Central Kentucky.

Chairman Haydon noted that Finance Cabinet Secretary Kevin Flanery, Dr. Gordon Davies, President of the Council on Postsecondary Education (CPE), John Cubine, Chief of Staff for the Attorney General's Office, and Bob McBeath, General Counsel for the State Auditor's Office, had participated in the review requested by the

committee, and were present today. He then called on Secretary Flanery to update the committee on that review. Secretary Flanery said they had all worked very hard on this project. He said as part of the review, they wanted to make sure that prior to the obligation of state funds, the proposal had gone through the proper process to obtain legislative approval. In addition, however it is financed, they wanted to make sure that the actual financing did not have any adverse impact on the state's debt or credit rating.

Dr. Gordon Davies said under the original proposal, a primary concern of the CPE was what would happen to approximately 23,000 square feet of instructional space in Diddle Arena. The proposal raised questions regarding who would pay for maintenance and operation of that instructional space if it was transferred to the city. Dr. Davies said that with WKU's revised plan for Diddle Arena, these questions have been answered. He said the Council would support the proposal as revised.

Dr. Davies said he was working with the Attorney General and Secretary Flanery in establishing a working group to establish general principles and a protocol for future proposals similar to the original Diddle Arena proposal. He outlined parameters that might be included in the protocol: (1) approval by the General Assembly of any substantial transfer of real property; (2) certification by the Finance and Administration Cabinet Secretary that the proposal is financially sound and the interests of the state are protected; (3) certification by the CPE that the proposal is consistent with the mission of the university; (4) identification by the CPE of any funding issues that are specific to higher education; and (5) demonstration by the institution that the proposal will serve people better and that state government or another instrumentality is advanced at the same time so there is a partnership that works to everybody's benefit.

Representative Wayne asked when this group's work would be completed. Dr. Davies said the working group would be ready to provide recommendations at the committee's October meeting.

Representative Wayne said according to an article in the *Bowling Green Daily News*, the city's bond attorney has not determined whether the city can issue general obligation bonds on property that the city does not own. Mayor Jones indicated that the issue has been resolved, and everything looked clear as far as the bond issue was concerned.

In response to a question from Representative Wayne regarding design costs, Dr. Ransdell said an architect has been engaged by Wyatt, Tarrant and Combs to do preliminary design only, but no contract is in place for full design of the renovation. He said he did not know what the estimated cost of design will be, but a standard architectural fee is typically five percent of the project.

Representative Wayne asked what would happen if the 2002 General Assembly does not approve the renovation project. Dr. Ransdell said the agreement WKU will sign with Bowling Green will allow the city to not only proceed with design but also will allow for some work (primarily the ordering of construction materials including prefabrication of some building materials) prior to the five-month construction period that will start in April of 2002. If for any reason, the 2002 General Assembly does not approve the project, the WKU Athletic Department would reimburse the city up to \$400,000 each year for that work until the city was fully reimbursed.

Representative Wayne said the proposal appears to be a masterful circumvention of the legislative process. While he commended Dr. Ransdell for presenting a much better proposal than originally presented in May, he questioned why the project was not brought to the General Assembly in a more timely fashion. He stressed the importance of going through the proper channels with the CPE and the Capital Planning Advisory Board, and said the committee needs to be assured that WKU, in the future, will cooperate with the legislature.

Dr. Ransdell said his intent was not to circumvent the statutes. He said the original concept was to transfer the property to the City of Bowling Green, but the statutes are not clear in that regard. He said he understood Representative Wayne's point, and WKU is committed to working with the legislature. At Representative Wayne's request, Dr. Ransdell agreed to provide the committee with information regarding legal fees expended on the project to date.

Representative Wayne said when the WKU dormitories were transferred to the private Student Life Foundation, there was a misunderstanding with regard to the procurement procedures to be followed for the renovation of the dormitories. He said it is his understanding that issue has now been clarified and assurances have been given by WKU that state procurement procedures will be followed on future dormitory work.

Dr. Ransdell said that there was an instance, which has been addressed, where bids were opened and negotiations occurred with one bidder. However, he said WKU has agreed to have an open bid process and a complete public distribution of all elements in a bid process. He said he had provided such assurance in a letter to Steve Barger, a member of the CPE, and agreed to provide the committee with a copy of the letter.

Representative Damron said he thought the legal counsel involved in this project was doing a masterful job of circumventing the statutes, and observed that generally when creative legal minds find a way to go around the General Assembly, the legislature overreacts and passes legislation that not only slams the door on that type of activity but probably on other activity as well. He suggested that the more appropriate way to finance the renovation of the arena would be issuance of the bonds by WKU.

Representative Damron said it also appears that the intent is to spend over \$400,000 (the threshold level for a capital project which requires General Assembly approval) in the next few months, and as a result, this may be a violation of capital construction statutes. Even though the city is issuing bonds on the university's behalf, WKU is making a commitment to repay all funds expended. He also questioned why the city will soon issue bond anticipation notes (short-term financing). He said a more prudent course, which would save costs associated with bond counsel and financial advisors, would be to fund the upfront costs of design and preliminary work with cash generated from the athletic student fee. He estimated that the fee should have generated at least \$2 million at this point. Dr. Ransdell said he would have to analyze the current athletic budget to determine if the student athletic fee could fund initial costs of this project.

In response to a question from Representative Marcotte, Dr. Ransdell said that based on the projected debt service that will be required and the amount of revenue projected to be generated by the student athletic fee, the margins by which the revenues exceed debt service are comfortable, ranging from \$1 million in the early years to \$4 million in the latter years.

Representative Marcotte asked what the university would do if for any reason the debt service exceeded the fee. Dr. Ransdell said that would be a highly unlikely occurrence--enrollment would have to drop by 40 or 50 percent for that to happen. If it did happen, the university's Board of Trustees could vote to increase the student athletic fee.

Senator Leeper asked if the firm that had been hired by Wyatt, Tarrant, and Combs for preliminary design has been guaranteed a contract for the full project or will that work be bid. Dr. Ransdell said the city will go through the standard procurement process in the engagement of all services for the renovation, including architects. Mayor Jones said they will follow the standard model procurement code. Senator Leeper asked whether the city requires architectural work to be bid. Mayor Jones said that professional services are not required to be bid, but the city often does a competitive bid for professional services.

Senator Leeper asked if the architectural firm anticipates getting a contract for full design. Dr. Ransdell said that while human logic would suggest they would be in a good position for the job, he was not aware that any commitments have been made.

Representative Wayne asked for clarification on the amount of funds that will be obligated prior to approval by the 2002 General Assembly. Dr. Ransdell said it was his understanding that the agreement between the city and the university will include a provision that if the General Assembly does not approve the project, the project will come to a halt, and WKU would reimburse the city up to a maximum of \$400,000 per year until all costs associated with the project up to that point are repaid.

Representative Wayne questioned the legality of such a provision, and asked Secretary Flanery for his opinion. Secretary Flanery said he has not yet seen the Property Agreement, but this provision of paying the city for expenses incurred at a rate of \$400,000 per year was new to him. He confirmed that the statutes would not allow the university to commit more than \$400,000 for the entire project. He assured the committee that he would be reviewing the agreement between the city and WKU to ensure it meets the statutory requirements. Similarly, he said his office would also review the bond documents to make sure they have no impact on state financing.

Dr. Ransdell said, if WKU can only obligate up to \$400,000 for the entire project without the General Assembly's approval, then that will be all WKU will obligate. He said he would work with Secretary Flanery on that provision to ensure complete compliance.

Representative Damron asked if the real advantage to this proposal is to avoid characterization of the financing of the renovation as state debt. Secretary Flanery said that one of the great advantages to this particular project is the city's issuance of general obligation bonds for the renovation will not count against the state finances.

Representative Damron asked that the Finance Cabinet provide the committee with a report on the state's bonded indebtedness. He asked that the report include an estimate as to how much new debt could be authorized in the 2002-04 budget, and still be consistent with the Administration's policy that debt not exceed 6% of revenues. Dr. Ransdell said that it was his understanding that there was not the capacity in the current budget for agency bonds for this project, and he stressed that, as important as this project is, the university's higher priorities are their academic programs.

In response to a question from Senator Jackson, Dr. Ransdell said if the project is not authorized, the risk is on the city. He referred to the earlier discussion, and said apparently WKU can only commit to repay up to \$400,000, and the city will have to absorb any additional costs expended.

Senator Leeper asked about contracts for future athletic events, including one with the Sunbelt Conference. Dr. Ransdell said the contracts are not contingent upon the renovation, but the decision to hold the Sunbelt Conference at WKU in 2002-03 and 2003-04 could be reversed.

After closing comments by the various participants, Representative Wayne said he did not believe action by the committee was required if project costs are kept under \$400,000 until the General Assembly considers the project in the 2002 Session. Chairman Haydon agreed and thanked all of the participants.

Chairman Haydon next called on Ken Walker, Vice President for the Kentucky Community and Technical College System (KCTCS), and Bruce Bailey, KCTCS Property Management Director, to talk about a lease modification.

Ken Walker presented a lease KCTCS has with the Jefferson Educational Foundation. A lease for space in the Portland Building was originated in January of this year for the Jefferson Community College (JCC). Mr. Walker said that JCC wishes to modify the lease to enable them to relocate a number of faculty and staff members who are being displaced due to a renovation of the JCC downtown campus (\$8.8 million in General Fund-supported bonds). KCTCS is proposing to lease an additional 23,000 square feet in the Portland Building at the current rate of \$5 per square foot. In addition, the Jefferson Educational Foundation proposes a fee of \$2.50 per square foot for utilities and janitorial service. (Annual costs will increase from \$172,500 to \$368,720.) Mr. Walker said the total cost of \$7.50 per square foot is substantially less than the market value for leased space in downtown Louisville and Jefferson County. The increase will be funded by the sale of JCC property for the widening of Second Street. Proceeds totaling over \$350,000 were recently negotiated with the City of Louisville, and will be used for the lease of the property for the next two years.

In response to questions from Representative Wayne, Mr. Walker said the original lease executed in January was bid through the statutory competitive process, but KCTCS failed to submit the lease to the committee for its review. Representative Wayne asked if changes have been made in the leasing program to assure timely reporting in the future. Mr. Walker said such changes have been made, and he assured the committee that this situation will not happen again.

Mr. Walker noted that the amendment to the lease will be in excess of \$200,000. (KRS 48.111 requires leases with an annual cost of \$200,000 or more to be specifically authorized by the General Assembly.) He said that they are seeking approval for the lease modification based on emergency provisions, and because they already have leased space in this building.

Representative Wayne asked how the Jefferson Education Foundation is affiliated with JCC and if the donors to the Foundation are made public. Mr. Walker said the Foundation was incorporated in 1968 as a non-profit corporation of the Commonwealth whose purpose is to support the education mission, goals, and programs of Jefferson County. He said the identity of members of the Board is public information, and that he had a list he would provide the committee.

Representative Wayne made a motion to approve the lease modification for Jefferson Community College. The motion was seconded by Representative Damron and passed by voice vote.

Chairman Haydon then asked Mr. Bill Hintze, Governor's Office for Policy and Management, to discuss the project report submitted by the Finance and Administration Cabinet.

Mr. Hintze first discussed an allocation of \$179,000 from the Capital Construction and Equipment Purchase Contingency Account to fund a feasibility study for the Cabinet for Health Services. The study will focus on the Intermediate Care Facilities for the Mentally Retarded (ICF/MR) administered by the Cabinet: Oakwood (Somerset), Hazelwood (Louisville), Outwood (Dawson Springs), and the ICF/MR facility at Central State Hospital (Louisville).

Representative Damron made a motion to approve the Contingency Account allocation. The motion was seconded by Representative Marcotte and passed by voice vote.

Mr. Hintze next reported that \$224,000 in restricted funds from the Department of Fish and Wildlife Resources will be advanced to the Cedar Creek Reservoir project in Lincoln County. The funds will be used for additional site improvement work, including basin clearing, wetland mitigation, and construction of three boat ramp facilities. He said the funds will be fully reimbursable from the federal government. In response to questions by Representative Wayne and Representative Damron, Mr. Hintze said the landowners are willing sellers, and the impoundment date is tentatively set for sometime in November .

Senator Jackson made a motion to approve the advance for the Cedar Creek Reservoir project. The motion was seconded by Representative Damron and passed by voice vote.

Mr. Hintze then reported a \$125,494 federally-funded scope increase for the Hazard Community College (Hindman Branch) project. This project was approved by the General Assembly in 1998 at a scope of \$3,250,000. In June of 2000, the project scope was increased, using federal funds, to support a Head Start/Daycare Program at the facility. The current increase will also be funded with federal funds, and will be used to improve the Head Start/Daycare space.

Senator Jackson made a motion to approve the scope increase for the Hazard Community College project. The motion was seconded by Representative Marcotte and passed by voice vote.

Mr. Hintze discussed a \$90,000 scope increase for the Kentucky Higher Education Assistance Authority (KHEAA) Office Building project. This project was authorized by the 1998 General Assembly at \$10,710,000. The scope increase will be funded with

supplemental federal funds that are already available to KHEAA. Mr. Hintze said if the funds are not used for this purpose, they will revert to the federal government.

Representative Damron made a motion to approve the scope increase for the KHEAA Office Building project. The motion was seconded by Representative Wayne and passed by voice vote. The total scope of the project is now \$10,800,000.

Mr. Hintze reported that project funds included in the past two budgets for the Berea Artisans Center (\$7,400,000 in bond funds), will be combined with \$600,000 in Road Funds that were authorized by the 2000 General Assembly for the Artisans Center. The total scope of the project is \$8,000,000.

Representative Wayne asked if this project has been scaled back from its original scope of \$14 million when it was authorized in 1998. Mr. Hintze said he was not aware of any scaling back once the project was funded in 1998. While they would welcome additional funds from the City of Berea or Madison County or from private sources, they have not at any point based project plans on such funds and was not aware that such funds were available. Chairman Haydon said this item was submitted for the committee's information and no action was required.

Mr. Hintze next reported two allocations from the Kentucky Heritage Land Conservation Fund for land acquisitions: Three Ponds, Hickman County - \$457,000 to purchase 486 acres and White Oak Creek, Garrard County - \$614,500 to purchase additional forested acres along the Kentucky River near the Palisades. No further action was required for these land acquisitions.

Lastly, Mr. Hintze reported that the University of Kentucky (UK) has formally certified to the Finance and Administration Cabinet that the university will issue \$26,000,000 in agency bonds for the Biomedical Sciences Research Building project. Certification was a condition of receiving the \$39,000,000 in state bond funds, and is necessary in order to proceed with the project. Chairman Haydon said no further action was required for this project.

Chairman Haydon introduced Mr. Ken Clevidence, Vice President for Fiscal Affairs, UK, to discuss a project report. Mr. Clevidence said the university is requesting approval to proceed with an unbudgeted project that has been approved by the Council on Postsecondary Education. The project is known as the UK College of Law Classroom Renovations project. The project scope is \$800,000 and will be funded with \$750,000 in federal funds and \$50,000 from university restricted funds. Mr. Clevidence said the project will include structural modifications to create auditorium-style seating and to enhance sight lines, and upgrade electronic equipment.

Senator Leeper noted that UK's most recent Six-Year Plan, the #4 priority was construction of a new law school building. He asked if that project is funded, will there still be a need for this renovation project. Mr. Clevidence said if the new Law School is approved, this space will continue to be used for teaching purposes for another college.

Representative Damron made a motion to approve the unbudgeted project for UK. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Jim Abbott, Director, Division of Real Properties, discussed four lease renewal reports for properties in Franklin County: PR-1069, Labor Cabinet, \$595,965 annually; PR-3322, Natural Resources and Environmental Protection Cabinet, \$497,749 annually; PR-3961, Council on Postsecondary Education, \$244,959 annually; and PR-3590, Cabinet for Families and Children, \$1,168,632 annually. Mr. Abbott said the lessor for each lease is Mr. Rodney Ratliff; the increase in rental rates range from 17%-28%.

Mr. Abbott said there continues to be a high demand for office space, and it is a seller's market in Franklin County. He said they have noticed a significant increase in proposed rental rates now being offered. Mr. Abbott said his agency is finalizing a long-term plan for office space in Franklin County, which will be presented at the September meeting of the Capital Planning Advisory Board. The plan will provide information outlining long-term potential development, strategies, and comparison of the various funding options for securing additional office space in Franklin County.

Mr. Abbott reminded members that last year his office presented to the committee a 10-year plan to address leasing needs as well as renovation needs of state-owned facilities in Frankfort. At the time of the report, the state leased a little less than 1,800,000 SF of space in Frankfort; today that figure has been increased by at least 200,000 SF.

Representative Marcotte said it appears that the same landlord has all the leases in Franklin County. He said the market in Franklin County should be more competitive, and he would approve building more state-owned buildings.

Representative Damron asked if the state retirement system owned or built a series of buildings, and leased them to the state of Kentucky, would any bonded indebtedness of the retirement system be considered part of the state's bonded indebtedness.

Mr. Hintze said he would have to consider that question, and observed this issue has been raised before, but not recently. Representative Damron said the state has unbelievable resources in the retirement system funds, and while he did not want to negatively affect those resources, he said he thought using retirement funds in construction of a state office building with guaranteed revenue flows would be a good investment.

Mr. Abbott said he and Gordon Mullis, Executive Director for the Office of Financial Management, visited with the retirement system personnel about a year ago to discuss such a possibility. At that time, the market conditions were much different than they are now, and the retirement system officials were not interested. He said they would be glad to reapproach the retirement system with that interest again.

Senator Jackson asked about PR-3961, the lease amendment for the Council on Postsecondary Education (CPE). He asked if the CPE still plans to seek an additional 3,000 SF as they indicated in their Six-Year Capital Plan. Mr. Sherron Jackson, CPE Senior Associate for Finance, said his agency withdrew its request for additional space because of budget reductions.

Senator Jackson made a motion to approve the four lease renewal projects. The motion was seconded by Representative Wayne and passed by voice vote. Representative Marcotte voted "No".

Mr. Abbott next reported a lease modification exceeding \$50,000 for the Cabinet for Families and Children in Jefferson County (PR-4150). The action being taken is to accommodate 15 additional staff by expanding office space and adding 15 reserved parking spaces. The annual cost will increase by \$50,455 to \$361,462.

Representative Damron made a motion to approve the lease modification for PR-4150. The motion was seconded by Representative Wayne and passed by voice vote.

Lastly, Mr. Abbott reported three lease modifications under \$50,000 for various properties leased by the state. This item did not require committee approval.

Senator Jackson asked that committee staff, working with the administration and the state retirement systems, look at different options to the leasing issue that might be considered in the next legislative session.

Chairman Haydon introduced Ms. Debby Milton, Kentucky Infrastructure Authority (KIA), to present four new projects proposed for KIA assistance: a proposed \$2,518,301 Fund A (Federally Assisted Wastewater Revolving Loan Fund) loan for the City of Carrollton, Carroll County; a proposed \$7,043,642 Fund C (Government Agencies Program) loan for the Oldham County Water District; a \$6,442,400 Fund F (Federally Assisted Drinking Water Revolving Loan Fund) loan for the Logan/Todd Regional Water Commission, and a \$1,500,000 Fund F loan for the Crittenden-Livingston County Water District.

Ms. Milton also presented six new Fund E (Solid Waste Grant and Loan Fund) grants for the Certified Clean Counties Program. The grants will be used to clean up open dumps in different counties. Five counties - Grant, Knott, Letcher, Magoffin, and

Menifee received grants of \$75,000, and Washington County received a grant of \$60,046, based on the amount of matching local dollars.

Representative Marcotte made a motion to approve the four new KIA loans and the five KIA Fund E grants. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon introduced Mr. Warren Nash, Director of the Grants Programs in the Economic Development Cabinet. Mr. Nash presented an Economic Development Bond (EDB) project to benefit SECAT, Inc. The Cabinet is proposing to make a grant of \$1,000,000 to the company, through the Lexington-Fayette Urban County Government. Proceeds will allow SECAT to purchase equipment necessary for its research and development operations located at UK's Coldstream Research Campus in Lexington. Mr. Nash said the mission of SECAT is to expand and promote the aluminum industry in Kentucky; it is a consortium of 12 different aluminum companies located throughout the state. To date, these companies have put \$1.7 million of financial support into the organization's operations and endowment. This has been matched by the Research Challenge Trust Fund; also UK has put over \$1.2 million into the SECAT project. In return for the EDB grant assistance, SECAT must provide a detailed report of its work and its impact on the aluminum industry in Kentucky over the next five years. Also, SECAT must remain in Fayette County at the Coldstream Research Park for the next 10 years. Mr. Nash said if this work can help retain at least one job for each of the 12 industries in Kentucky, it will put over \$300,000 - \$400,000 back in the economy.

In response to a question from Representative Wayne, Mr. Nash said no new jobs are being generated, but the bonds will be used to retain industry jobs throughout Kentucky. He said by performing the research and development work in Kentucky, SECAT helps the Kentucky aluminum industry. Dr. Subodh Das, President of SECAT, Inc. said the aluminum industry is the fifth largest job provider in the manufacturing sector. There are within the state 81 aluminum plants that provide 15,000 jobs paying close to an average of \$50,000 a year, and close to \$35 million in taxes.

Dr. Das explained SECAT was formed to fill a void left when research facilities for the Kentucky aluminum companies were dismantled, and there was no way for the companies to do research needed to lower the cost of manufacturing. He said SECAT has received \$15 million in government contracts for research and development, but the majority of the work is being done outside of Lexington because they do not yet have the equipment to do the work at the Coldstream facility. He added that SECAT has hired seven employees in the last six months, and they intend to hire more.

Representative Wayne said he was not sure that EDB funds should be used for this project. He said there are major corporations that own SECAT, and certainly the major corporations could pay the research bill. He said Fayette County is one of the wealthiest

counties in the state, and there are a lot more worthy areas in the state that have a greater need for EDB assistance.

Senator Jackson the reason there is a strong aluminum industry in Kentucky is because of cheap electricity and an abundance of water. In response to question from Senator Jackson, Dr. Das indicated that SECAT is working with several aluminum companies located in Henderson.

Senator Jackson observed that the Innovation and Commercialization Center, a New Economy Initiative at Western Kentucky University, is to promote and enhance the aluminum industry in Kentucky and in the region. He said he thought SECAT can play a role in this, but the role does not need to be duplicated.

Representative Damron said the Governor has been very supportive of SECAT, and while the structure of this particular EDB grant is unusual (no direct job commitments are required), it is an economic development initiative, and the aluminum industry is important to the state of Kentucky.

Representative Damron made a motion to approve the EDB grant for SECAT. The motion was seconded by Senator Jackson and passed by voice vote. Representative Wayne voted "No".

Chairman Haydon said last month, several committee members had questions about the use of the Budget Reserve Trust Fund to help address the budget shortfall, and called on Gordon Mullis, Executive Director for the Office of Financial Management (OFM), to address that information request.

Mr. Mullis said his office stays in frequent contact with the rating agencies, and as budget reductions have been proposed and implemented, they have been presented to the rating agencies. Since such disclosure, OFM has sold a \$160 million bond issue, and none of the three rating agencies changed the rating they had given on previous state bond issues. Each rating agency has the state issue listed as stable. However, the rating agencies have indicated to OFM that they are concerned that the state has used a number of one-time means to meet budget concerns, and is now proposing to use \$120 million in additional funds from the Budget Reserve Trust Fund (BRTF) to address the budget problem.

Mr. Mullis said the rating agencies have discussed with them the need to maintain a structurally balanced budget, and to develop a plan to restore the BRTF. He stressed that the rating agencies do not expect the state to fully restore the BRTF in one budget cycle, but they do expect a solid and realistic plan to begin restoring the fund. He closed his report on this issue by saying the state's bonds are rated the highest they have ever

been rated and he believes that with the legislative and executive branches working together on this, that rating will be maintained.

Mr. Mullis then presented the agency's bond activity report. Mr. Mullis first reported a new bond issue: Eastern Kentucky University (EKU) Consolidated Educational Buildings Refunding Revenue Bonds, Series U, dated September 1, 2001 (\$10,407,638). The proceeds will be used to refund outstanding bonds.

Senator Leeper made a motion to approve the new bond issue for EKU. The motion was seconded by Representative Damron and passed by voice vote.

Next, Mr. Mullis discussed another new bond issue: State Property and Buildings Commission (SP&BC) Revenue Bonds, Project No. 72 (\$206,100,000). The proceeds will be used to provide permanent financing for capital construction projects authorized by the 2000 General Assembly. He said, because of the advantageous market rates, they are considering including a refunding element to the issue. He added that, while the information submitted is based on a level 20-year debt structure, they are considering a number of alternative structures that might provide lower rates in the early part of the repayment period. He indicated that he would keep the committee's staff informed of any changes in the bond issue as presented.

Senator Leeper made a motion to approve the new bond issue for SP&BC. The motion was seconded by Representative Wayne and passed by voice vote.

Also included in the committee's folders were two follow-up reports: Morehead State University Housing and Dining System Revenue Bonds, Series P, dated July 1, 2001 (\$5,125,000); and Kentucky Higher Education Student Loan Corporation Taxable Student Loan Revenue Bonds, Senior Series 2001 A and Student Loan Revenue Bonds, Subordinate Series 2001 B (\$150,000,000). These reports did not require committee action.

Lastly, Mr. Mullis reported three new bond issues with School Facilities Construction Commission (SFCC) debt service participation: two for Letcher County and one for Taylor County.

Representative Wayne made a motion to approve the school bond issues with SFCC debt service participation. The motion was seconded by Representative Marcotte and passed by voice vote. Representative Damron abstained from the vote, citing a potential conflict of interest.

Chairman Haydon said there were seven locally funded school bond issues submitted to the committee for review this month: Anchorage Independent (Jefferson Co.); Calloway County; Gallatin County; Larue County; Murray Independent (2)

(Calloway Co.); and Walton-Verona Independent (Boone Co.). He said all disclosure information has been filed, and no further action on these bond issues is required.

Chairman Haydon said the next committee meeting is scheduled for September 18 at 1:00 p.m. in Rm. 129.

Representative Damron made a motion to adjourn the meeting. The motion was seconded by Senator Leeper and passed by voice vote. The meeting adjourned at 3:25 p.m.